Research on the Quality of Rewards Systems in Czech Companies

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***Abstract*— In this paper we outline our research and present final results of our empirical investigation (survey), which was conducted among the biggest Czech companies and aimed at the quality (maturity) of their performance measurement and management system (PMMS) in connection with rewards system (RS). The paper is focused on the part of the survey dealing with rewarding of employees in relation to performance measurement. Descriptive statistics are given and weaknesses of rewards systems implemented in the analyzed companies are identified and some generalizations are made. Degree of utilization of the total rewards approach (TRA) is discussed. We also discuss correlation of indices which we constructed for evaluation of the quality of the implemented rewards system with subjective evaluation of these systems.**

***Index Terms*— performance evaluation, rewards for performance, total rewards**

I. Introduction

THIS paper has been processed as an output of a research project "Performance measurement and management system and its connection with the system of rewarding and motivating workforce." Within this project we are preparing a methodology for a quick estimation of the quality of implemented performance measurement and management system (abbreviated "PMMS" hereinafter) in its relation to rewards system (abbreviated "RS" hereinafter). The first results of this enquiry were incorporated into a questionnaire investigating crucial properties of PMMS, RS and their interconnections. The questionnaire was distributed among the biggest Czech companies according to the number of their employees and we published preliminary results of this research in [1]. In this paper we present final results.

Our questionnaire is divided into 3 parts.

Part A explores basic information about a company, the quality of strategy formulation, formal strategy execution process and finally examines level of use of selected contemporary methods of managerial accounting.

Part B deals with specific methods of performance measurement and management and is divided into 5 sections - overall characteristics of the implemented PMMS and strategic PMMS; financial measures; non-financial measures; performance measurement and management in connection with incentives; subjective feelings about the quality of the implemented PMMS and about performance of the company in comparison with its competitors.

Part C is fully dedicated to rewarding of employees, especially in relation to PMMS and also addresses other methods of influencing employees' behavior. In this paper we deal nearly solely with the part C.

Full questionnaire has in total 72 questions on 28 pages (format A4) and therefore is rather comprehensive. Parts A (15 questions, usually with sub-questions) and B (35 questions, usually with sub-questions) should be preferably filled in by CFO or controller; part C (22 questions) by HR manager if possible. The questions are of various types (mostly questions presented using a seven-point Likert scale, closed format questions, dichotomous questions and also several open format questions).

II. Methodology

In the course of the preparation of our questionnaire we used a vast body of literature on performance measurement and management and rewarding of employees. Because of the space limitations of this paper, we mention here only the literature that influenced our research in the most significant way. As for evaluation of PMMS we adopted to a large degree a structured approach introduced in [2]–[4], which we enriched and enhanced also into the area of RS evaluation. Important and up-to-date findings on rewards, performance measurement and management and interconnections of these areas including the most important references were published in [5] and comprehensively are related topics covered also in [6]–[7].

Based especially on the above mentioned resources we developed and described a structured approach to RS analysis in [8]. Consequently we embodied this approach into a questionnaire, which can be used for getting a clear view of basic properties and quality of the implemented RS. We used this questionnaire to obtain information about properties and weaknesses of RS implemented in companies of our respondents. Below is given an outline of the main areas

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covered by our questionnaire.

Firstly, we investigate who is responsible for creation of conception of RS as a whole and especially whether this responsibility is centralized or not.

Secondly, we investigate the quality of rewards strategy formulation and consequently the quality of crucial components of rewards system itself.

Thirdly, we turn our attention to dynamic aspects of RS. Specifically we analyze whether process of evaluation of RS is put in place and in case it is implemented, then we examine how thoroughly RS is evaluated.

Fourthly, utilization of elements of total rewards approach (abbreviated "TRA" hereinafter) is checked and types of rewards in use are analyzed. We also investigate which managerial tools for influencing employees' behavior other than compensations are put in place.

Fifthly, utilization of incentives (that is rewards for performance) is investigated in detail. In the contemporary literature we can find very diverse opinions on utilization of incentives. On the one hand, there is a school of thought that is refusing rewards for performance or at least draws attention to risks and disadvantages connected with these rewards (for example situations when utilization of incentives leads to various types of undesired behavior, see e.g. [9, p. 23-26]). These authors are especially refusing individual incentives, whereas rejection of group-based incentives is usually not so strong. Very resolute rejection of incentives as of the main tool for influencing employees' behavior can be found for example in [10]. Critical (cautious) views on incentives can be found also in [11] and [5]. On the other hand, prevailing portion of literature from the field of financial management and managerial accounting supports utilization of incentives, especially incentives for individuals, e.g. [12]. We therefore examine how companies tackle with the problem of incentives in practice. We addressed similar problems also in [13].

Sixthly, opinions on the importance of monetary rewards as a tool of influencing employees' behavior are examined, that is whether a company uses these rewards as the most important tool for influencing behavior of its employees or sets rewards so that they are acceptable for employees and afterwards uses the other managerial tools to influence behavior of employees.

Finally, the overall subjective evaluation of rewards system is examined. Within this paper we also discuss whether this overall evaluation accords with the evaluation of more detailed properties of RS as discussed above.

III. Results and Discussion of the Empirical Investigation

We collected data through an e-mail survey and in total we contacted the 150 largest Czech companies according to the number of their employees.

After exclusion of the unusable questionnaires, we have questionnaires with filled-in part C from 20 respondents. Basic characteristics of these respondents can be found in Table I.

TABLE I
RESPONDENTS' CHARACTERISTICS (YEAR 2010)

Chacteristic	Mean	Median	Std Dev
Number of full time employees	5 256	1 730	8 998
Assets (millions of CZK)	12 328	3 390	18 914
Turnover (millions of CZK)	9 553	3 866	10 759

A. Responsibility for creation of conception of RS

At the beginning of the part C of our questionnaire we asked companies, whether there is one person responsible for preparation of the overall conception of RS and which position of this person in an organization is. Obtained answers are summarized in Table II.

TABLE II
APPROACH TO CREATION OF CONCEPTION OF REWARDS SYSTEM

Approach (centralized / decentralized)	Number of companies
Centralized	16
Decentralized	2
Total	18

We can conclude that responsibility for creation of conception of RS is in 88.89 % (calculated from the number of companies that answered our question about centralized approach "yes" or "no") centralized and only in 11.11 % decentralized. Two respondents answered neither "yes" nor "no" because one of them reported to follow "corporate methodology" and the other one claimed to use "a combination of centralized and decentralized approaches". Prevailing centralized approach accords with principles of TRA.

B. Rewards strategy formulation and rewards system

In the next section of our questionnaire we asked companies to express the level of their agreement with statements about desired properties of their rewards strategy and their rewards system. Answers were expressed using a seven-point Likert scale from (1) our system does not have this property at all, (4) moderately, up to (7) our system fully has this property.

In total we asked companies 13 questions about properties of their rewards strategy and consequently we for each company computed an "index of quality of rewards strategy formulation" as a simple arithmetic mean of the selected properties that according to our opinion belong among the 10 most important ones.

These 10 properties include – goals of RS are clearly formulated (P1-1); importance of these separate goals is defined (P1-2); it is set how RS helps to support the overall company's strategy (P1-3); processes for a continuous updating of rewards strategy are put in place (P1-4); it is clearly decided whether rewards for performance will be used

and for which positions (P1-5); it is set, with which external subjects will be RS and its components compared, e.g. competitors (P1-6); it is set which competitive position will the company take in various areas, e.g. decision to have approximately the same wages as competitors (P1-7); intensity of communication about rewards with stakeholder is set (P1-8); information resources for making decisions about rewards strategy are identified (P1-9); rewards strategy is kept up to date (P1-10).

Analogically we computed an "index of quality of rewards system" as a simple arithmetic mean of the 17 selected questions about properties of the implemented RS.

These 17 properties include – RS is based on rewards strategy (P2-1); RS is in accordance with the culture of a company or with desired change of the culture (P2-2); RS is fair (P2-3); relative value of various jobs is objectively set and there is the same reward for the same type of work (P2-4); decisions on rewarding are consistent in time (P2-5); RS is competitive from the viewpoint of the ability to hire and retain desired employees (P2-6); employees can choose from various types of rewards (P2-7); RS supports behavior that is in accordance with company's goals (P2-8); RS creates loyalty of employees (P2-9); RS is cost-effective (P2-10); high-quality jobs descriptions are available (P2-11); high-quality base pay structure is created (P2-12); processes of revision, measurement and evaluation of RS are put in place (P2-13); new practices of rewarding are developed (P2-14); new practices of rewarding are introduced into practice (P2-15); RS is sufficiently communicated top-down (P2-16); RS is sufficiently communicated bottom-up (P2-17).

Unfortunately, it is not possible to analyze values of all these properties separately in this paper and therefore we want at least to point out which properties are according to our research especially poorly implemented (considering mean value 4 as a borderline under which a property is not properly implemented)

For rewards strategy formulation we obtained values close to 4 for properties P1-6 (mean value 4.00), P1-8 (mean value 3.95) and P1-7 (mean value 3.55). Therefore we can conclude that in the area of rewards strategy formulation companies admit imperfections especially in external benchmarking (both in selecting appropriate reference points and in deciding which competitive position should their company take in relation to these reference points) and in poor communication about RS with stakeholders.

As for RS itself, we obtained the lowest mean value for property P2-7 (mean value 1.85), that is employees cannot choose from various types of rewards; mean values of all other properties are above 4. We are suspicious that obtained values are more or less overrated because of the social desirability bias and we want to address these problems in a greater detail in a consequent phase of our empirical research, which will consist of a semi-structured interview with the selected respondents about their PMMS and RS.

In Table III can be found the simple arithmetic means of the above defined indices that we calculated based on obtained responses.

TABLE III
INDICES OF QUALITY OF REWARDS STRATEGY FORMULATION AND QUALITY OF REWARDS SYSTEM (SCALE (1) LOW LEVEL ... (7) HIGH LEVEL)

Index (ranked by mean value on a scale 1-7)	Mean	Median	Std Dev
Quality of rewards strategy formulation	4.89	4.75	1.06
Quality of rewards system	4.98	5.00	0.85

C. Evaluation of RS

Evaluation of RS is an important part of dynamics of these systems as without processes of revision, measurement and evaluation it is difficult to rationally manage updating of RS.

Especially important is the evaluation of the following areas - analysis of acceptation of the implemented RS by employees (A1); analysis of understanding the aims targeted by RS by employees (A2); analysis of the impact of RS on behavior of employees, e.g. fluctuation (A3); analysis of the impact of RS on substantive outputs of the work, e.g. quality (A4); analysis of the impact of RS on final results, e.g. customer satisfaction (A5); analysis of expenses on rewards (A6); analysis (with help of non-quantitative methods) of the impact of RS on financial results (A7); analysis (with help of quantitative methods) of the impact of RS on financial results (A8). In Table IV are listed numbers of companies that realize evaluation of the given area including reference points to which they compare their performance.

TABLE IV
AREAS OF EVALUATION OF REWARDS SYSTEM

Area of evaluation	Compared with / in (number of companies)		
	time	compe-titors	plan
A1	13	6	5
A2	13	0	3
A3	14	1	5
A4	14	0	12
A5	14	1	14
A6	18	5	18
A7	12	3	12
A8	12	0	12

Next we asked companies to specify in detail how they evaluate expenses on rewards. We got in total 17 responses to this open-ended question. According to 15 of these responses is evaluation aimed solely on wage expenses (which are usually furthermore segmented, e.g. to base pay and variable pay etc.), only 2 companies reported to analyze expenses on benefits. Therefore we can conclude that companies do not have a complete knowledge about expenses on total rewards as wages are only a subset of such expenses.

We hypothesize that there is a lot of window-dressing in the answers to questions about evaluation of RS and objective results would probably be far less encouraging. Possible is also misinterpretation of our questions (though the questions were clearly formulated), for example answering "yes" to

questions about areas of evaluation A7 and A8 only because financial results are evaluated (without analysis of interdependences with rewards system). We want to check this hypothesis in the second phase of our empirical research (semi-structured interviews).

D. Total rewards approach, types of rewards

TRA is a concept that is becoming popular in textbooks as well as among consultancy companies and in practice. According to its broad definition are total rewards everything that employees value in the employment relationship. TRA also emphasizes the necessity of integrated management of all components of total rewards. Because we consider the utilization of TRA principles to be generally beneficial from the viewpoint of the quality of RS, we tried to identify the key properties which should RS display according to TRA and asked our respondents about these properties.

First of all, we were examining to which extent our respondents use various elements of TRA. We asked respondents to express the extent to which they agree with the following 8 propositions - person responsible for rewards also participates on creating of the company's strategy (P3-1); rewards are communicated with employees so that they understand the concept of total rewards (P3-2); people responsible for various parts of the total rewards are mutually coordinated (P3-3); CEO supports total rewards program (P3-4); costs on rewards are considered to be more an investment than expenses (P3-5); managers are encouraged to explain the value of total rewards to their subordinates (P3-6); changes are taking place in the total rewards approach, depending on the results of research using quantitative methods (P3-7); employees are satisfied with TR program (P3-8). Results are

TABLE V
TOTAL REWARDS APPROACH (SCALE (1) FULLY DISAGREE ... (7) FULLY AGREE)

Proposition	Mean	Median	Std Dev
P3-1	5.90	6.00	1.45
P3-2	4.65	5.00	1.42
P3-3	5.60	6.00	1.27
P3-4	6.00	7.00	1.49
P3-5	4.55	5.00	1.39
P3-6	5.05	5.00	1.50
P3-7	4.16	4.00	1.61
P3-8	4.25	4.00	1.07

in Table V.

A bit surprising is relatively low mean value of proposition P3-8, especially in context with higher mean values of the other variables. Relatively low mean value is also connected with proposition about communication between management and other employees. This finding is quite alarming especially when we take into account that there is a broad agreement in literature that ineffective communication is "a deal breaker," see e.g. [7, p. 53].

Utilization and integrated management of the various reward types is another important aspect of broadly defined TRA. Therefore we addressed types of rewards used by companies and our results can be found in Table VI.

TABLE VI
TYPES OF REWARDS IN USE (NUMBER OF COMPANIES=20)

Type of reward	Number of companies using given reward	Percentage of companies using given reward.
Compensation (base pay and other types of compensation)	20	100.00
bonus/pay for performance	20	100.00
merit pay	12	60.00
skill based pay	6	30.00
gain-sharing	10	50.00
profit-sharing	3	15.00
Benefits	16	80.00
Work-life balance	13	65.00
Recognition	9	45.00
Career development	14	70.00
Positive workplace	13	65.00

On the whole it is possible to conclude that companies use a wide range of reward types including non-monetary ones. This positive finding is a bit weakened by the fact that employees are usually not allowed to select types of rewards they prefer.

E. Other tools for influencing employees behavior

The most often mentioned tools for influencing employees' behavior in literature are designing the jobs and the relationships between them in a way that enhances the intrinsic appeal of the job (T1); training managers to use supportive interpersonal style (T2); hiring people that match the organization's needs (T3); supporting pro-social behavior from the top to the bottom of the organization (T4); training employees (T5); empowering (T6) and teamwork (T7). We asked organizations whether they use these tools and results are summarized in Table VII.

TABLE VII
TOOLS FOR INFLUENCING OF EMPLOYEES' BEHAVIOR (NUMBER OF COMPANIES=20)

Tool	Number of companies using given tool	Percentage of companies using given tool
T1	10	50.00
T2	14	70.00
T3	17	85.00
T4	12	60.00
T5	16	80.00
T6	16	80.00
T7	16	80.00

In addition to the above mentioned tools, companies reported that for influencing behavior of their employees they utilize evaluation of employees (1 respondent) and participation in decision-making (1 respondent).

F. Incentives

By incentives we understand rewards (especially the monetary ones) for performance. We were examining using incentives deeply in our survey and in this paper are presented the most important results.

First of all, we asked respondents about proportion of their employees of various categories who are entitled to obtain

TABLE VIII
PROPORTION OF EMPLOYEES OF VARIOUS CATEGORIES ENTITLED TO OBTAIN INCENTIVES (NUMBER OF COMPANIES=20; SCALE (1) 0 PER CENT OF EMPLOYEES ... (7) 100 PER CENT OF EMPLOYEES

Category of employees	Mean	Median	Trend (number of companies)	
			increase	decrease
Top mgt.	6.37	7.00	2	0
Middle mgt.	6.11	7.00	4	0
Line mgt.	5.63	6.00	4	0
Non mgt.	5.60	6.00	5	0

incentives as well as about planned development in this proportion (see Table VIII).

We can conclude that our findings confirmed our hypothesis about intensive use incentives for the majority of categories of employees. On the one hand this is in compliance with recommendations given in the mainstream literature. Nevertheless there are growing numbers of academics and consultants who point out that adoption of incentives is often neither connected with higher employees' satisfaction nor with increased performance of companies.

Secondly, we asked companies to indicate how intensively they take into account possibilities of employees to influence

TABLE IX
POSSIBILITY TO INFLUENCE MEASURES USED FOR CALCULATION OF INCENTIVES BY VARIOUS EMPLOYEES' CATEGORIES (SCALE (1) FULLY DISAGREE ... (7) FULLY AGREE)

Category of employees	Given category of employees can influence measures used for calculation of their incentives		
	mean	median	std dev
CEO	6.06	7.00	1.57
Top management	6.06	7.00	1.52
Middle management	5.91	6.00	1.13
Line management	5.86	6.00	1.35
Non-managerial	5.27	6.00	1.91

measures according to which their incentives are calculated. Answers can be found in Table IX.

We can see that mean value is constantly decreasing. This indicates a need for a methodology for creating incentive system under which even non-managerial employees would feel that they really can influence measures relevant for calculation of their incentives. Obviously, incentives have to be substantive, not only symbolic, if they are meant to be a real force leading to a higher performance of employees.

Thirdly, we asked companies which types of compensation

TABLE X
TYPES OF COMPENSATION IN USE (NUMBER OF COMPANIES=20)

Type of compensation	CEO	Top mgt.	Mid mgt.	Line mgt.	Non mgt.
Bonus	19	19	18	15	16
Merit	6	6	8	9	9
Skill pay	0	0	4	4	5
Gain sharing	4	5	4	5	7
Profit sharing	3	3	2	2	0

they use for various categories of employees and results are summarized in Table X.

Well, not all compensation types mentioned in Table X match to our definition of incentives perfectly - especially skill pay, which does not necessary correspond to performance.

Furthermore, it seems that preferred are short-time oriented incentives to long-term ones. This claim is supported by the fact that incentives are usually paid out at once, bonus bank is used rarely. Specifically in the case of top managers is bonus bank used by 7 respondents, in case of middle management is bonus bank used by 2 respondents, in case of line management is bonus bank used by 3 respondents and in case of non-managerial employees in 2 instances.

Furthermore, we asked companies whether they negotiate method of calculation of incentives for a period longer than one year. In the case of CEO, only 1 company reported to negotiate calculation of incentives for a period longer than 1 year and in case of other top managers, middle management, line management and non-managerial employees also only one of our respondents reported such approach. We can therefore conclude that incentive plans are in case of our respondents in a vast majority designed to reward short-time performance more that long-time performance. We feel this can be a potential problem as such approach can lead to short-term oriented behavior.

TABLE XI
MEASURES (PERSPECTIVES) USED FOR CALCULATION OF INCENTIVES FOR VARIOUS CATEGORIES OF EMPLOYEES (NUMBER OF COMPANIES=20)

Category of employees	Perspective (number of companies)			
	financial	custo-mer	inter-nal	learning
CEO	19	6	5	2
Top management	20	6	8	2
Middle management	18	6	11	4
Line management	16	6	9	4
Non-managerial	16	6	8	4

Finally, we asked which performance measures are used for calculation of incentives for various categories of employees and our findings are summarized in Table XI.

G. The overall approach to rewarding employees and relative importance of rewards to the other tools of influencing employees' behavior

According to the results of our survey, 9 of 19 companies which answered this question (that is 47.37 %) uses rewards as the most important tool for influencing behavior of employees, other 10 companies (that is 52.63 %) sets rewards so that they are acceptable for employees and afterwards uses other managerial tools to influence employees' behavior. One company did not expose its overall approach to the rewarding and therefore was not included into evaluation.

H. Subjective evaluation of the quality of RS

We asked companies to give a subjective evaluation of their rewards system. Answers were expressed using a seven-point Likert scale from (1) - the lowest quality to (7) - the highest quality of RS. Mean value of responses was 4.85, standard deviation was 0.88, minimal value was 3, maximal value was

6, and median value was 5. We examined correlation between answers to this question and "index of quality of rewards strategy formulation" and "index of quality of rewards system" (calculation of these indices was explained in chapter III.B). As we do not anticipate normal distribution, we used both approaches to correlation – Pearson and Spearman's. Both types of correlation indices show identical results (there is no case when one index shows significant correlation and other does not), that is why only Pearson correlation is presented in Table XII.

TABLE XII
PEARSON CORRELATION

Index		Subjective evaluation
Index of quality of rewards strategy formulation	Pearson correlation	0.493
	Sig. (2-tailed)	0.027
	N	20
Index of quality of rewards system	Pearson correlation	0.875
	Sig. (2-tailed)	0.000
	N	20

We can conclude that according to our results there is a statistically significant medium correlation between "index of quality of rewards strategy formulation" and subjective evaluation of RS with a Pearson coefficient of 0.493, and a statistically significant strong correlation between "index of quality of rewards system" and subjective evaluation of RS with a Pearson coefficient of 0.875.

IV. CONCLUSION

Responsibility for creation of conception of RS is among our respondents in vast majority centralized (88.89 %), which is an approach suggested by the contemporary mainstream literature.

Calculated "index of quality of rewards strategy formulation" and "index of quality of rewards system" have mean values 4.89, respectively 4.98, which is quite satisfactory. Respondents usually pay attention to rewards strategy and they try to improve their rewards systems.

Nevertheless at the same time mean value of responses to the question about satisfaction of employees with total rewards program equals only to 4.25. We hypothesize that this is mainly due to the weak communication of rewards system, low possibility of employees to choose from various types of rewards and because of inappropriate use of incentives. Nevertheless more research is needed in this area.

Various elements of TRA are used, including different kinds of rewards, but as mentioned, companies often fail to communicate their rewards programs. Respondents claim to use numerous managerial tools for influencing employees' behavior as well.

We suspect our respondents that they overrate themselves especially as for their ability to evaluate rewards systems and utilization of the above mentioned managerial tools. Unfortunately, we could not verify this suspicion yet. We hope to get more precise information in the second phase of our empirical research which should include semi-structured interviews with selected respondents.

All respondents use incentives (rewards for performance), nevertheless nearly exclusively for rewarding short-time performance. We were not surveying whether incentives are substantial or symbolic.

Less than 50.00 % of our respondents use rewards as the most important tool for influencing behavior of their employees, the rest of our respondents compose rewards so that they are acceptable for employees and consequently use other managerial tools to influence employees' behavior. We see this to be somehow contradictory to the intensive use of incentives, especially taking into account declared trends (increasing numbers of employees entitled to obtain incentives). Such approach may indicate ineffectiveness and wasting resources.

Last but not least we examined correlation between subjective evaluation of the quality of RS and calculated indices. We found that there is a statistically significant medium correlation between "index of quality of rewards strategy formulation" and subjective evaluation of RS, and a statistically significant strong correlation between "index of quality of rewards system" and subjective evaluation of RS. Based on these results we propose that suggested indices are a good measure of the overall RS quality.

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